

**RAVALLI COUNTY  
HAMILTON, MONTANA**

**FINANCIAL &  
COMPLIANCE  
REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2007**

**RONALD PAUL FOLTZ**  
CERTIFIED PUBLIC ACCOUNTANT

**RAVALLI COUNTY  
HAMILTON, MONTANA**

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**RAVALLI COUNTY  
HAMILTON, MONTANA**

**ELECTED OFFICIALS**

**JUNE 30, 2007**

**Board of County Commissioners**

**James Rokosch, Chairman  
Greg Chilcott  
Alan Thompson  
Carlotta Grandstaff  
Kathleen Driscoll**

**Attorney/Auditor**

**George Corn**

**Clerk and Recorder**

**Regina Plettenberg**

**Clerk of District Court**

**Debbie Harmon**

**Justice of the Peace**

**Jim Bailey**

**Justice of the Peace**

**Robin Clute**

**Public Administrator**

**Frankie Laible**

**County Superintendent of Schools**

**Regina Plettenberg**

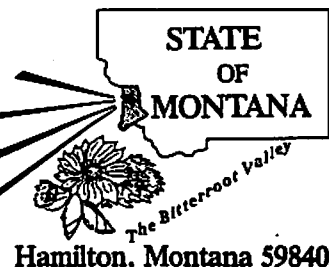
**Sheriff**

**Chris Hoffman**

**Treasurer**

**JoAnne Johnson**

# COUNTY OF RAVALLI



## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

This is the County's management's discussion and analysis. It provides an overview of the County's financial activities for the fiscal year ended June 30, 2007. Please read it along with the County's financial statements which begin on page 10.

### FINANCIAL HIGHLIGHTS

Ravalli County continues to be one of the fastest growing counties in the State of Montana. Providing essential services to an expanding population and dealing with limitations on revenue streams are continuing challenges for the County. For the fiscal year ended 2007, the County's financial condition improved as America's economy slowly continued to recover. Investment income increased for the 3<sup>rd</sup> consecutive year providing the County improved resources to fund services.

In May 2007, the County replaced two main data switches, one in the Courthouse and one in the Administrative Building, that provide server connections for all computer operations of the County. The longevity of data switches is approximately eight years, and the old switches were beyond their useful life. The cost of the project was \$108,000 with the County paying \$30,000 down and financing the remaining \$78,000 with Koch Financial, Inc. for five years.

Necessary upgrades of the County's 911 communications system were accomplished during the year. The 911 phone system went through an enhanced upgrade and improved logging recorder equipment was purchased for the emergency system.

During fiscal year 2006, the Airport received two Federal Aviation Administration (FAA) grants to purchase snow removal equipment for the airport grounds and to construct a building to house the equipment. The FAA provided the County with 95% of the funding with the County matching 5% of the funds. The building which houses the snow equipment was completed in July 2006, and the snow equipment was delivered to the County in March 2007.

The U.S. Department of Transportation awarded the County a Community Transportation Enhancement Project (CTEP) to construct a bike/pedestrian path in the Town of Darby. The \$114,000 project was started in April 2007 and a majority of the work was completed in June 2007. CTEP funded 82% of the project with the Darby Civic Club supplying the remaining match of 18%.

In June 2006, the citizens of Ravalli County voted to levy \$200,000 to the Senior Citizens Fund. This levy was placed on the tax bills for fiscal year 2007 and is paid to the Council on Aging to fund senior programs within Ravalli County.

Following a special election in November of 2006, Ravalli County distinguished itself as the only Montana County with 5 Commissioners. Following a list of five recommendations generated by the Local Government Study Commission, Ravalli County voters decided to implement two of the five including increasing the number of Commissioners from three to five and shortening the term of office from six to four years. The actual transition occurred in mid-June 2007. While some of the financial impacts occurred in FY '07 in the form of additional election costs and the remodel of the Administrative Center to accommodate two more Commissioners, it is understood that the lion's share of the impacts, both financial and operational, will not be realized until Fiscal Year 2008.

## USING THIS ANNUAL REPORT

This annual report consists of financial statements for the County as a whole with more detailed information for certain County funds. The Statement of Net Assets and the Statement of Activities (pages 10 and 11) provide information about the activities of the County as a whole and present a long-term view of the County's finances (they include capital assets and long-term liabilities).

The fund financial statements present a short-term view of the County's activities (they include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future). They present detailed information about the County's general fund and certain other funds. There is also summarized financial information about the external investment pool, individual investment accounts, and agency funds for which the County acts as a trustee.

## THE COUNTY AS A WHOLE

One important question asked about the County's finances is, "Is the County better or worse off as a result the year's activities?" The information in the government-wide financial statements helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting (and report depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The change in net assets (the difference between total assets and total liabilities) over time is one indicator of whether the County's financial health is improving or deteriorating. However, you need to consider other nonfinancial factors in making an assessment of the County's health, such as changes in population, changes in the State's funding, changes in the economy, changes in the County's tax base, etc. to assess the overall health of the County.

Current assets increased primarily due to building up cash reserves in capital outlay funds. Non-current assets are up because of the net effect of significant additions to capital assets discussed above. Current liabilities are down primarily due to the pay-off of the general obligation bonds mentioned above.

Changes in the County's net assets (rounded to the nearest \$1,000) were as follows:

	2007	2006	Change	%
Current assets .....	\$6,542,000	\$6,492,000	\$50,000	1%
Capital assets:				
Infrastructure - net .....	28,174,000		28,174,000	100%
	16,281,000	16,173,000	108,000	1%
Total assets .....	50,997,000	22,665,000	28,332,000	125%

	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>%</b>
Current liabilities .....	1,452,000	1,621,000	(169,000)	(10)%
Non-current liabilities .....	3,452,000	3,665,000	(213,000)	(6)%
Total liabilities .....	4,904,000	5,286,000	(382,000)	(7)%
Net assets:				
Invested in capital assets .....	40,841,000	12,303,000	28,538,000	232%
Restricted net assets .....	1,894,000	1,656,000	238,000	14%
Unrestricted net assets .....	3,358,000	3,420,000	(62,000)	(2)%
Total net assets .....	\$46,093,000	\$17,379,000	\$28,714,000	165%

As described in Note 2 to the financial statements, the County recorded its roads and bridges (infrastructure) as of July 1, 2006. This change increased capital assets by more than \$28,000,000 and increased depreciation expense by almost \$6,000,000.

Changes in the County's revenues (rounded to the nearest \$1,000) were as follows:

	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>%</b>
Program Revenues:				
Charges for services .....	\$3,163,000	\$3,076,000	\$87,000	3%
Operating grants .....	1,877,000	2,574,000	(697,000)	(27)%
Capital grants .....	394,000	429,000	(35,000)	(8)%
Total program revenues .....	5,434,000	6,079,000	(645,000)	(11)%
General Revenues:				
Property taxes .....	9,237,000	8,658,000	579,000	7%
Intergovernmental .....	2,372,000	2,460,000	(88,000)	(4)%
Investment earnings .....	240,000	150,000	90,000	60%
Gain on sale of assets and other revenues .....	93,000	109,000	(16,000)	(15)%
Total general revenues .....	11,942,000	11,377,000	565,000	5%
Total Revenues .....	\$17,376,000	\$17,456,000	(\$80,000)	0%

The increase in charges for services relates to road prorata fees. The operating grant decrease was due to the Federal Aviation Administration grants discussed above.

The increase in property taxes was due to the increase in taxable valuations, levies also increased slightly. The major increase in interest rates was caused by the nationwide interest rate increase together with the County making some longer term investments at higher rates.

Changes in the County's expenses (rounded to the nearest \$1,000) were as follows:

	2007	2006	Change	%
<b>EXPENSES:</b>				
General government . . . . .	\$4,568,000	\$4,664,000	(\$96,000)	(2)%
Public safety . . . . .	5,762,000	5,502,000	260,000	5%
Public works . . . . .	9,435,000	3,041,000	6,394,000	210%
Public health . . . . .	1,139,000	1,006,000	133,000	13%
Culture and recreation . . . . .	662,000	595,000	67,000	11%
Social and economic development . .	336,000	216,000	120,000	56%
Housing and community development		297,000	(297,000)	(100)%
Comprehensive Insurance . . . . .	203,000	189,000	14,000	7%
Interest expense . . . . .	193,000	132,000	61,000	46%
Total government expenses . . . . .	22,298,000	15,642,000	6,656,000	43%
Less program revenues . . . . .	5,434,000	6,079,000	(645,000)	(11)%
Expenses, net of revenues . . . . .	16,864,000	9,563,000	7,301,000	76%
Less general revenues . . . . .	11,942,000	11,377,000	565,000	5%
Excess (deficiency) of Revenues over Expenses . . . . .	(4,922,000)	1,814,000	(6,736,000)	(371)%
Change in Accounting - Report Infrastructure . . . . .	33,636,000		33,636,000	100%
Change in net assets . . . . .	\$28,714,000	\$1,814,000	\$26,900,000	1483%

The County's expenses increased in Public Works due to the implementation of the accounting requirement to record public domain (infrastructure) assets consisting of roads and bridges and the related depreciation on those assets.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant of the County's funds. Under this new reporting model, the County is required to provide detailed information for the "major" funds.

Major funds are defined as the general fund and any other fund where the assets, liabilities, revenues, or expenditures exceed 10% of total governmental fund amounts. In 2007, the road fund, public safety fund, PILT fund and capital projects fund exceeded these thresholds.

The governmental funds provide a short-term view of the County's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using

only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

The County transfers funding received in the payment-in-lieu-of-taxes (PILT) fund to other funds for operating needs based on the budget. The County levies for health insurance and other benefits in separate funds and transfers those monies to funds which incur personnel costs. Other transfers are made as provided for in the budget.

Actual General Fund and budgeted Special Revenue funds revenues were in line with budgeted revenues. Actual General Fund expenditures and transfers were less than budgeted due to fewer contracted service needs with attorneys and other professionals. Special Revenue funds actual expenditures and transfers were approximately in line with the final budgets.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

As noted above, the County recorded its roads and bridges (infrastructure) in their capital assets as of July 1, 2006. See footnotes 6 and 7 for more information about capital assets and debt administration.

## **THE FUTURE OF THE COUNTY**

As a result of the County's continuing rapid growth, offices throughout the County will again be tasked to keep up with growing demand for services with modest increases in available funds. While Public Safety and Planning will continue to be the focal points for much of the dialogue surrounding the "growth issue," it will be important for the Commissioners to balance their efforts to support all of the offices and services being continually stretched to their limits.

As the County did with the expansion of the Juvenile Detention Facility in FY '06, the Commissioners will work to implement changes that will allow offices to be more self-supporting. This will be accomplished through evaluation of, and possible increases in, County fees, solicitation of grant funding, and streamlining of existing services.

Ravalli County is fortunate to have a qualified pool of leaders, both elected and appointed, running its various departments and we are optimistic that the challenges we are faced with will be dealt with thoughtfully and effectively and that we will have the wisdom to learn from the times when this was not the case.



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**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Ravalli County  
Hamilton, Montana

I have audited the financial statements of the government activities, each major fund, and the aggregate remaining fund information of Ravalli County, Hamilton, Montana, as of and for the year ended June 30, 2007 which collectively comprise the County's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the County's management. My responsibility is to express opinions on the financial statements based on my audit. The prior year summarized comparative information included on the government-wide financial statements has been derived from the County's 2006 financial statements and, in my report dated April 16, 2007, I expressed an unqualified opinion on those financial statements.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ravalli County, Hamilton, Montana, as of June 30, 2007 and the respective changes in financial position thereof for the year then ended in conformity with U. S. generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the County has changed its method of accounting for capital asset infrastructure.

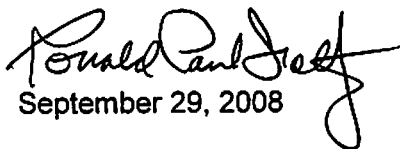
In accordance with *Government Auditing Standards*, I have also issued a report dated September 29, 2008, on my consideration of the County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral

part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The schedule of revenues, expenditures, and other sources (uses) - budget and actual - general fund and major special revenue funds on pages 30 and 31 is supplementary information required by U.S. generally accepted accounting principles. The schedule of expenditures of federal awards on pages 33 to 35 is required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The supplemental schedules referred to in the preceding paragraph are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The supplemental information listed in the accompanying table of contents and the management's discussion and analysis on pages 2 through 6, which is also supplementary information required by U. S. generally accepted accounting principles, have not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, I express no opinion on such supplemental information or on the management's discussion and analysis.

  
September 29, 2008

**RAVALLI COUNTY  
HAMILTON, MONTANA**

**STATEMENT OF NET ASSETS  
JUNE 30, 2007**

(With comparative amounts for the year ended June 30, 2006)

	2007	2006
<b>ASSETS:</b>		
Current Assets:		
Cash and Investments .....	\$5,003,776	\$5,061,842
Property Taxes Receivable .....	926,467	733,779
Other Receivables .....	423,805	508,216
Inventory .....	188,694	188,694
Total Current Assets .....	6,542,742	6,492,531
Capital Assets		
Land .....	3,962,054	3,885,198
Buildings and Equipment .....	19,490,107	18,794,499
Roads and Bridges .....	106,669,179	
Less Accumulated Depreciation .....	(85,667,439)	(6,506,985)
Capital Assets - Net .....	44,453,901	16,172,712
Total Assets .....	50,996,643	22,665,243
<b>LIABILITIES:</b>		
Current Liabilities:		
Accounts Payable and Accrued .....	648,538	799,413
Deferred Revenue .....	58,026	93,809
Current Portion of Long-Term Debt .....	745,011	727,223
Total Current Liabilities .....	1,451,575	1,620,445
Non-current Liabilities:		
Notes Payable .....	3,230,652	3,515,092
Capital Lease Payable .....	62,296	
Special Assessment Bonds .....	15,000	20,000
Compensated Absences .....	144,153	131,103
Total Non-current Liabilities .....	3,452,101	3,666,195
Total Liabilities .....	4,903,676	5,286,640
<b>NET ASSETS:</b>		
Invested in Capital Assets, Net of Related Debt .....	40,840,406	12,302,880
Restricted Net Assets .....	1,894,361	1,656,101
Unrestricted Net Assets .....	3,358,200	3,419,622
Total Net Assets .....	\$46,092,967	\$17,378,603

See Notes to Financial Statements

**RAVALLI COUNTY  
HAMILTON, MONTANA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

(With comparative amounts for the year ended June 30, 2006)

	-----Program Revenue-----					
	Charges for	Operating	Capital	Net (Expense) Revenue		
Expenses	Services	Grants	Grants	2007	2006	
GOVERNMENT OPERATIONS:						
General Government .....	\$4,567,497	\$1,383,764	\$16,678	(\$3,167,055)	(\$3,331,631)	
Public Safety .....	5,762,306	284,454	657,466	(4,820,386)	(4,028,200)	
Public Works .....	9,434,673	858,910	823,830	\$394,202 (7,357,731)	(1,162,128)	
Public Health .....	1,138,457	312,081	325,436	(500,940)	(233,930)	
Culture and Recreation .....	662,470	323,633	53,259	(285,578)	(216,819)	
Social and Economic Development .....	336,254			(336,254)	(216,238)	
Housing .....					(53,107)	
Comprehensive Insurance ...	202,662			(202,662)	(188,918)	
Interest Expense .....	193,266			(193,266)	(131,730)	
Totals .....	\$22,297,585	\$3,162,842	\$1,876,669	\$394,202 (16,863,872)	(9,562,701)	
GENERAL REVENUES:						
Property Taxes .....				9,237,135	8,657,850	
Intergovernmental .....				2,372,069	2,460,245	
Investment Earnings .....				240,123	149,383	
Gain on Sale of Assets and Other .....				92,683	109,286	
Total General Revenues .....				11,942,010	11,376,764	
Excess (Deficiency) of Revenues Over Expenses .....				(4,921,862)	1,814,063	
Change in Accounting - Report Infrastructure .....				33,636,226		
CHANGE IN NET ASSETS .....				28,714,364	1,814,063	
NET ASSETS:						
Beginning of the Year .....				17,378,603	15,564,540	
End of the Year .....				\$46,092,967	\$17,378,603	

See Notes to Financial Statements

**RAVALLI COUNTY  
HAMILTON, MONTANA  
BALANCE SHEET  
GOVERNMENTAL FUNDS**

JUNE 30, 2007

	Major Funds						Total
	General Fund	Road Fund	Public Safety Fund	Payment-in- lieu-of-tax Fund	Capital Projects Fund	Other Government Funds	Government Funds
<b>ASSETS:</b>							
Cash and Investments ..	\$503,459	\$270,135	\$90,725	\$1,554,669	\$694,215	\$1,890,573	\$5,003,776
Property Taxes Receivable .....	128,820	119,088	201,912			476,647	926,467
Due From/To Other Funds .....	109,535					(109,535)	
Other Receivables .....	85,198		64,384			274,223	423,805
Inventory .....		188,694					188,694
<b>Total Assets .....</b>	<b>\$827,012</b>	<b>\$577,917</b>	<b>\$357,021</b>	<b>\$1,554,669</b>	<b>\$694,215</b>	<b>\$2,531,908</b>	<b>\$6,542,742</b>
<b>LIABILITIES:</b>							
Accounts Payable and Accrued .....	\$117,350	\$190,370	\$133,079		\$227	\$207,512	\$648,538
Deferred Revenue .....	128,820	119,924	201,912			532,468	983,124
<b>Total Liabilities .....</b>	<b>246,170</b>	<b>310,294</b>	<b>334,991</b>		<b>227</b>	<b>739,980</b>	<b>1,631,662</b>
<b>FUND BALANCE:</b>							
Reserved for Inventories .		188,694					188,694
Unreserved							
General Fund .....	580,842						580,842
Special Revenue Funds		78,929	22,030	\$1,554,669		1,168,125	2,823,753
Debt Service Funds ...						20,381	20,381
Capital Project Funds .					693,988	603,422	1,297,410
<b>Total Fund Balance ....</b>	<b>580,842</b>	<b>267,623</b>	<b>22,030</b>	<b>1,554,669</b>	<b>693,988</b>	<b>1,791,928</b>	<b>4,911,080</b>
<b>Total Liabilities and Fund Balance .....</b>	<b>\$827,012</b>	<b>\$577,917</b>	<b>\$357,021</b>	<b>\$1,554,669</b>	<b>\$694,215</b>	<b>\$2,531,908</b>	<b>\$6,542,742</b>

See Notes to Financial Statements

**RAVALLI COUNTY  
HAMILTON, MONTANA**

**RECONCILIATION OF THE  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

**JUNE 30, 2007**

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Fund balance as reported in the governmental funds statement .....		\$4,911,080
Add assets not reported in the governmental funds statement:		
Capital assets .....	\$130,121,340	
Less accumulated depreciation .....	<u>(85,667,439)</u>	44,453,901
Less liabilities not reported in the governmental funds statement:		
Notes payable .....	(3,515,272)	
Capital Lease Payable .....	(78,223)	
Special assessment bonds payable .....	(20,000)	
Compensated absences .....	<u>(583,617)</u>	(4,197,112)
Deferred revenue for property taxes recognized as revenue in the revenue in the government-wide statements .....		<u>925,098</u>
Net assets as reported in the government-wide statement of net assets .....		<u>\$46,092,967</u>

See Notes to Financial Statements

**RAVALLI COUNTY  
HAMILTON, MONTANA**

**GOVERNMENTAL FUNDS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2007**

	Major Funds					Other Government Funds	Total
	General Fund	Road Fund	Public Safety Fund	Payment-in lieu-of-tax Fund	Capital Project Fund		
REVENUES:							
Property Taxes . . . . .	\$1,021,291	\$1,009,679	\$1,604,897			\$5,409,948	\$9,045,815
Licenses and Permits . . .	166,530	141,766	10,645			9,488	328,429
Intergovernmental . . . .	348,914	873,800	140,410	\$1,469,669		1,768,926	4,601,719
Charges for Services . . .	724,442	26,182	166,837		\$6,178	854,421	1,778,060
Fines and Forfeitures . . .	254,836		1,604			55,829	312,269
Interest Earnings . . . . .	164,681		1,866		37,966	35,610	240,123
Other . . . . .	26,684	31,942	78,235		10,193	688,791	835,845
Total Revenues . . . . .	2,707,378	2,083,369	2,004,494	1,469,669	54,337	8,823,013	17,142,260
EXPENDITURES:							
General Government . . .	2,641,988				5,473	1,580,537	4,227,998
Public Safety . . . . .	52,528		4,065,005			1,350,841	5,468,374
Public Works . . . . .		2,287,693			222,834	702,010	3,212,537
Public Health . . . . .	558,959					579,498	1,138,457
Culture and Recreation . .	1,775					635,606	637,381
Social and Economic Development . . . . .	24,931					306,907	331,838
Comprehensive Insurance . . . . .						202,662	202,662
Capital Outlay . . . . .	259,126	58,128	11,001			1,178,720	1,506,975
Debt Service . . . . .		79,106	42,124			406,596	527,826
Total Expenditures . . .	3,539,307	2,424,927	4,118,130		228,307	6,943,377	17,254,048
Excess (Deficiency) of Revenues Over Expenditures . . . . .							
	(831,929)	(341,558)	(2,113,636)	1,469,669	(173,970)	1,879,636	(111,788)
Other Sources (Uses):							
Proceeds from Borrowing . .	78,223						78,223
Sale of Assets . . . . .	1,607	74,600				2,907	79,114
Transfers . . . . .	945,051	275,542	1,955,969	(1,475,650)	344,531	(2,045,443)	
Change in Fund Balance . .	192,952	8,584	(157,667)	(5,981)	170,561	(162,900)	45,549
Fund Balance:							
Beginning of the Year . . .	387,890	259,039	179,697	1,560,650	523,427	1,954,828	4,865,531
End of the Year . . . . .	\$580,842	\$267,623	\$22,030	\$1,554,669	\$693,988	\$1,791,928	\$4,911,080

See Notes to Financial Statements

**RAVALLI COUNTY  
HAMILTON, MONTANA**

**RECONCILIATION OF THE  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2007**

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Change in fund balances as reported in the governmental funds statement . . . . .	\$45,549
Increase in property taxes receivable not reflected in revenue in the governmental funds statement . . . . .	191,320
Increase in compensated absences not reflected as a reduction in expenditures in the governmental funds statement . . . . .	(60,031)
Amounts reported as expenditures in the governmental funds statement not included as expenses in the statement of activities:	
Capital outlays . . . . .	1,506,975
Principal payments on long-term debt . . . . .	334,560
Depreciation expense reported on the statement of activities not included in the governmental funds statement . . . . .	(6,825,041)
Other sources and (uses) of funds reported on the governmental funds statement not reported on the statement of activities:	
Proceeds from borrowings . . . . .	(78,223)
Cost less accumulated depreciation of capital assets disposed of or sold which is not reported on the governmental funds statement . . . . .	(36,971)
Change in accounting - report infrastructure as of July 1, 2006 . . . . .	<u>33,636,226</u>
Change in net assets on the statement of activities . . . . .	<u>\$28,714,364</u>

See Notes to Financial Statements



**RAVALLI COUNTY  
HAMILTON, MONTANA**

**STATEMENT OF FIDUCIARY NET ASSETS  
AND  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

<b>FIDUCIARY NET ASSETS</b>	<b>External Investment Pool</b>	<b>Individual Investment Accounts</b>	<b>Agency Funds</b>
<b>ASSETS:</b>			
Cash and Investments .....	\$18,131,841	\$5,000	\$2,478,152
Property Taxes Receivable .....			2,678,714
<b>Total Assets .....</b>	<b>18,131,841</b>	<b>5,000</b>	<b>5,156,866</b>
<b>LIABILITIES:</b>			
Due to Other Governments .....			5,156,866
<b>NET ASSETS:</b>			
Held in Trust for Pool Participants and Individual Investment Accounts .....	\$18,131,841	\$5,000	\$0
<b>CHANGES IN FIDUCIARY NET ASSETS</b>			
<b>ADDITIONS</b>			
Contributions to Investments .....	\$74,186,577		
Investment Earnings .....	680,451		
<b>Total Additions .....</b>	<b>74,867,028</b>		
<b>DISTRIBUTIONS FROM INVESTMENTS .....</b>	<b>70,455,276</b>	<b>\$2,463</b>	
<b>CHANGE IN NET ASSETS HELD IN TRUST .....</b>	<b>4,411,752</b>	<b>(2,463)</b>	
<b>NET ASSETS</b>			
Beginning of the Year .....	13,720,089	7,463	
End of the Year .....	\$18,131,841	\$5,000	

See Notes to the Financial Statements

**RAVALLI COUNTY  
HAMILTON, MONTANA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2007**

	<u><b>Note</b></u>	<u><b>Page</b></u>
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## Notes to Financial Statements (continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

Ravalli County is governed by an elected five-member Board of County Commissioners and is considered an independent governmental organization. The accompanying financial statements include the activities of the County controlled by the County Commissioners. Ravalli County has no component units.

#### B. Basis of Presentation and Basis of Accounting

**Government-wide Financial Statements** - The statement of net assets and the statement of activities show information about the overall financial position and activities of the County with the exception of the funds held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the County are generally financed through property taxes, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function. The County does not charge indirect expenses to programs or functions. Program revenues include fees for services (primarily charges for services) and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues. The County generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

**Fund Financial Statements** - These statements provide information about the County's funds, including a separate statement for the County's fiduciary funds. The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds.

#### Governmental Funds

These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected soon after year-end (generally within 60 days) are recognized as revenue. Most property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred revenues are recorded in the governmental funds for these receivables.

## Notes to Financial Statements (continued)

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of the County's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the County applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

U. S. generally accepted accounting principles requires that the general fund be reported as a major fund and that all other governmental funds whose assets, liabilities, revenues, or expenditures exceed 10% or more of the total for all government funds also be reported as major funds. Accordingly, the County reports the following major governmental funds:

General fund. This is the County's primary operating fund which accounts for all financial resources of the County except those required to be accounted for in other funds.

Road fund. This fund is used to account for the tax collections, federal forest reserve funds, and related expenses for construction, maintenance or improvement of County roads outside of incorporated cities and towns.

Public Safety fund. This fund accounts for tax collections levied for the purpose of providing for the public safety of citizens. The tax monies must be used to support County law enforcement services and to maintain the County detention center.

PILT fund. This fund is set up to account for the monies received from the federal government for the Payment in Lieu of Taxes (PILT) on the substantial federal real property located in the County, primarily U.S. forest land.

Capital Projects fund - This fund accounts for a portion of the capital projects funds.

Fiduciary Funds - Fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting and consist of the following:

External Investment Pool. This pool consists of funds deposited in the County's investment pool which belong to other participating local governments and are reported separately from the County's invested funds.

Individual Investment Accounts. These accounts are funds deposited with the County which are invested as directed by local governments which own the funds. They are reported separately from the investment pool.

Agency funds. These funds consist of cash held for other governments that do not participate in the County's investment pool and property taxes receivable belonging to other governments. Cash amounts consist primarily of property tax collections and other funds collected by the County on behalf of other governments that are remitted to the other governments soon after the end of the month. The County manages all of the property taxes levied in the County.

## Notes to Financial Statements (continued)

### C. Cash and Investments

Except for certain specific bank deposits and investments held separately on behalf of certain school and irrigation districts, cash resources, to the extent available, of the individual funds are combined to form an investment pool, which is managed by the County Treasurer. Investments of pooled cash, which are authorized by state law, consist primarily of demand deposits, non-negotiable certificates of deposit, bank repurchase agreements, government agency securities and notes, and investments in the Montana Short-Term Investment Pool (STIP).

The County reports most investments at fair value. Certain minor investments and bank deposits are reported at cost or amortized cost which approximates fair value.

Legally separate entities that are not part of the County reporting entity are permitted to participate in the investment pool, and those entities' portion of the investment pool is reported in an investment trust fund. The investment pool is managed in accordance with the County's stated investment policy.

Investment income includes realized gains and losses and the change in fair value of investments. Investment income on pooled investments is allocated to participating external entities on the basis of end of the month balances. The County's share of pooled investment income not related to specific investments is allocated to the general fund.

The County issues warrants in payment of its obligations. When warrants are presented to the County Treasurer, the County issues a check to pay the warrants.

### D. Property Taxes

Property tax levies are approved on or before the second Monday in August or within 45 calendar days of receiving certified taxable values from the Department of Revenue. Real property (and certain attached personal property) taxes are billed in October and are due in equal amounts on November 30 and the following May 31. After those dates they become delinquent (and a lien upon the property). After three years the County may exercise the lien and take title to the property. Personal property taxes (other than those billed with real estate) are generally billed in May or June and are normally due 30 days after billing.

Taxable valuations, mill values, and mill levies for November 2006 property tax billings were as follows:

	<u>Taxable Valuation</u>	<u>Value of Mill</u>	<u>Mills levied</u>
County-wide levies . . . . .	\$64,468,316	\$64,468	100.303
Unincorporated areas only . . . . .	\$53,994,555	\$53,994	18.978

State law limits the number of mills the County can levy to the amount of property tax dollars levied in the prior fiscal year plus amounts related to the taxable value for the annexation of real property, new construction and improvements, debt service, and certain other exceptions. Additionally, the mill levy limits can be exceeded for one year in the event that an emergency levy is required.

## Notes to Financial Statements (continued)

### E. Inventories

Inventories of supplies and other expendable items are valued at estimated cost, which approximates market. In the fund statements, inventories are expensed when purchased (purchases method) and recorded inventories are offset by a fund balance reserve. For the government wide statements, inventories are switched to the consumption method.

### F. Capital Assets

Capital assets are carried at cost or estimated cost if actual cost is not available. Donated capital assets are valued at their estimated fair market value on the date received. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to capital assets. Repair and maintenance costs are not capitalized.

Depreciation on assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

Land Improvements	10 - 50 years
Buildings and Improvements	5 - 50 years
Machinery and Equipment	3 - 40 years
Roads	5 - 20 years
Bridges	50 years

### G. Compensated Absences

County employees earn vacation and sick leave as required by State law. Up to two years of accumulated vacation leave and 25% of accumulated sick leave is payable to the employee on termination. The amounts reported as compensated absences payable is based on the termination benefits.

### H. Comparative Amounts

The government-wide financial statements include prior-year comparative totals and are not at the level of detail required for a presentation in conformity with U.S. generally accepted accounting principals. Accordingly, these totals should be read in conjunction with the government-wide financial statements for the year ended June 30, 2006 from which they have been derived.

## **2. CHANGE IN ACCOUNTING**

Generally accepted accounting principles require the recording of public domain (infrastructure) assets, consisting of roads, bridges, and similar assets for a government the size of the County (a Phase 2 government) no later than June 30, 2007.

The County has recorded the estimated cost of the County's infrastructure as of June 30, 2006 by reporting a prior period adjustment of \$33,636,226 for infrastructure placed in service prior to June 30, 2006.

Notes to Financial Statements (continued)

**3. CASH AND INVESTMENTS**

A summary of cash and investments at June 30, 2007 was as follows:

Cash on Hand .....	\$364,914
Repurchase Agreement (Sweep Account) .....	3,061,246
Cash and Deposits with Banks .....	1,996,563
U.S. Government Bonds, and Certificates of Deposit, due in 2006-2009 .....	7,611,245
State Short-term Investment Pool (STIP) .....	12,579,801
Cash with Fiscal Agents .....	<u>5,000</u>
 Total .....	 <u>\$25,618,769</u>

The ownership of cash and investments was as follows:

County Governmental Funds .....	\$5,003,776
Fiduciary Funds:	
External Investment Pool .....	18,131,841
Individual Investment Accounts .....	5,000
Non-pooled Agency Funds .....	<u>2,478,152</u>
 Total Cash at County .....	 <u>\$25,618,769</u>

The Montana Short-Term Investment Pool (STIP) is managed by a State agency, the Montana Board of Investments, and invests in short-term, highly liquid investments. Amounts invested may be redeemed at any date at the carrying value on that date. The STIP unit value is fixed at \$1 for both purchases and redemptions. A purchased unit earns income on the purchase date and ceases to earn income on the day before the unit is sold. Income is distributed on the first calendar day of each month and is usually automatically reinvested in additional units. Audited financial statements for the State of Montana's Board of Investments (which includes STIP) are available at 555 Fuller Avenue, Helena, Montana 59601.

STIP is not registered with the Securities and Exchange Commission (SEC) but it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 (similar to a money-market fund).

Certificates of deposit are generally for terms of one year or less. Cash on hand represents un-deposited collections by the Treasurer on June 30, 2007 as well as petty cash, change, and checking accounts not controlled by the County Treasurer.

All of the cash and investments except STIP, cash with fiscal agents, and cash on hand is either insured or collateralized except \$79,373 of bank deposits. Collateralization is in the form of securities held by bank trust departments in their name but identified on their books as held on the County's behalf.

Notes to Financial Statements (continued)

4. PROPERTY TAXES RECEIVABLE - Changes in property taxes receivable were as follows:

Balance - June 30, 2006 .....	\$753,069
Allowance for Bad Debts .....	<u>(19,290)</u>
Net Property Taxes Receivable .....	733,779
 Taxes Levied .....	7,491,042
Collections .....	(7,328,751)
Other Changes .....	<u>52,268</u>
 Balance - June 30, 2007 .....	948,338
Allowance for Bad Debts .....	<u>(21,871)</u>
Net Property Taxes Receivable .....	<u>\$926,467</u>

5. INTER-FUND TRANSFERS AND BALANCES

The County General Fund loaned \$109,535 to non-major funds that had cash deficits. The County pays health insurance and other fringe benefits from its operating funds and then transfers monies from levy funds to reimburse the operating funds. The County accounts for the receipt of Federal Payments-in-Lieu-of-taxes (PILT) revenues in a single fund and then transfers out to various funds based on the budgeted operating needs. Transfers between the funds were as follows:

Transfers from	Transfers to	Amount
General fund .....	Non-major funds .....	\$470,680
	Public Safety fund .....	167,956
	CIP fund .....	221,684
Road fund .....	Non-major funds .....	109,377
	General fund .....	7,108
Public Safety fund .....	CIP fund .....	165,238
	Non-major funds .....	21,706
PILT .....	General fund .....	550,220
	Public safety fund .....	476,637
	CIP fund .....	20,533
	Non-major funds .....	428,260
CIP fund .....	General fund .....	79,787
	Public Safety fund .....	120,412
	Non-major fund .....	2,124
Non-major funds .....	General fund .....	1,168,457
	Road fund .....	392,027
	Public safety fund .....	1,377,907
	CIP fund .....	139,398
	Other non-major funds .....	<u>888,534</u>
Total operating transfers .....		<u>\$6,808,045</u>



## Notes to Financial Statements (continued)

### 6. CAPITAL ASSETS - Changes in capital assets were as follows:

	Balance June 30, 2006	Additions	Deletions	Change in Accounting and Other	Balance June 30, 2007
<b>Cost:</b>					
Land .....	\$3,885,198	\$80,196	(\$3,340)		\$3,962,054
Land Improvements ....	1,216,171	51,308			1,267,479
Buildings .....	10,726,760	102,451			10,829,211
Machinery and Equipment	6,851,568	840,623	(203,153)	(\$95,621)	7,393,417
Roads .....		385,597		104,143,544	104,529,141
Bridges .....		46,800		2,093,238	2,140,038
<b>Total .....</b>	<b>22,679,697</b>	<b>1,506,975</b>	<b>(206,493)</b>	<b>106,141,161</b>	<b>130,121,340</b>
<b>Accumulated Depreciation:</b>					
Land Improvements ....	450,098	45,867			495,965
Buildings .....	2,977,130	290,001			3,267,131
Machinery and Equipment	3,079,757	539,563	(169,522)	(41,283)	3,408,515
Roads .....		5,933,052		71,034,500	76,967,552
Bridges .....		16,558		1,511,718	1,528,276
<b>Total .....</b>	<b>6,506,985</b>	<b>6,825,041</b>	<b>(169,522)</b>	<b>72,504,935</b>	<b>85,667,439</b>
<b>Capital Assets - Net .....</b>	<b>\$16,172,712</b>	<b>(\$5,318,066)</b>	<b>(\$36,971)</b>	<b>\$33,636,226</b>	<b>\$44,453,901</b>

#### Depreciation expense was charged to functions as follows:

General government .....	\$279,468
Public safety .....	293,932
Public works .....	6,222,136
Social and economic services .....	4,416
Culture and recreation .....	25,089
<b>Total .....</b>	<b>\$6,825,041</b>

### 7. GENERAL LONG-TERM DEBT - Changes in general long term debt were as follows:

	Balance June 30, 2006	Debt issued	Principal Payments	Other Changes	Balance June 30, 2007	Amount due in 2008
<b>Interkap notes payable:</b>						
Courthouse remodel .....	\$309,260		(\$37,538)		\$271,722	\$38,616
Courthouse remodel .....	11,968		(1,466)		10,502	1,507
Courthouse remodel .....	86,627		(5,711)		80,916	10,978
Jail console .....	55,540		(5,915)		49,625	6,076
Administration building remodel	15,581		(10,303)		5,278	5,278
Administration building remodel	49,233		(32,583)		16,650	16,650
Road equipment .....	487,037		(48,584)		438,453	49,905
Detention center remodel .....	41,550		(27,395)		14,155	14,155
Emergency 911 loan .....	20,438		(20,438)			
Emergency 911 loan .....	3,527		(3,527)			

## Notes to Financial Statements (continued)

### Changes in general long term debt (continued)

	Balance June 30, 2006	Debt issued	Principal Payments	Other Changes	Balance June 30, 2007	Amount due in 2008
<b>Bank loans:</b>						
Sheriff equipment loan . . . . .	\$103,686		(\$28,184)		\$75,502	\$29,923
Administration building loan . . . .	1,725,000		(75,000)		1,650,000	75,000
Airport building loan . . . . .	226,562		(6,882)		219,680	7,267
Trade Center building loan . . . .	650,000		(8,394)		641,606	18,969
Road equipment loan . . . . .	7,344		(7,344)			
Aeronautics board loan . . . . .	51,479		(10,296)		41,183	10,296
Rural special improvement bonds	25,000		(5,000)		20,000	5,000
Capital lease - data switches . . . .		\$78,223			78,223	15,927
Compensated absences . . . . .	523,586			\$60,031	583,617	439,464
<b>Total . . . . .</b>	<b>\$4,393,418</b>	<b>\$78,223</b>	<b>(\$334,560)</b>	<b>\$60,031</b>	<b>\$4,197,112</b>	<b>\$745,011</b>

### NOTES PAYABLE

#### Interap Notes Payable - from the State of Montana Board of Investments:

All of the Interap loans have semi-annual payments. The interest rate on these loans is variable, based on the interest cost of the underlying State bonds. The interest rate at June 30, 2007 was 4.75%. The terms of the Interap loans are as follows:

Year Issued	Purpose	Term	Due Date	Original Amount	Balance 6/30/07
2000	Emergency 911 System	7 Years	2/15/07	\$131,476	
2000	Emergency 911 System	7 Years	2/15/07	18,524	
2002	Admin. Building Remodel	5 Years	8/15/07	126,751	\$16,650
2002	Admin. Building Remodel	5 Years	8/15/07	49,200	5,278
2003	Courthouse Remodel	10 Years	8/15/13	398,539	271,722
2004	Courthouse Remodel	9 Years	8/15/13	14,834	10,502
2006	Courthouse Remodel	7 Years	8/15/13	86,627	80,916
2004	Jail Console	10 Years	8/15/14	64,257	49,625
2005	Road Equipment	10 Years	2/15/15	535,000	438,453
2005	Detention Center Remodel	2 Years	8/15/07	54,800	14,155
<b>Total Interap Loans . . . . .</b>					<b>\$887,301</b>

#### Bank Loans

In 2000, the County borrowed \$497,248 at 4.875% from a bank to purchase equipment for the road department. The term of the loan is 7 years with interest only payments for the first two years and five years of principal and interest payments. The payments are due on July 30<sup>th</sup> through 2006 with the last payment reduced by an additional principal payment in 2000. The note is collateralized by the equipment. This was paid off in full in 2007.

## Notes to Financial Statements (continued)

In 2004 and 2005 the County constructed a building at the airport. \$149,997 was borrowed in fiscal year 2004 and another \$85,911 was borrowed in 2005. The term of the loan is 20 years and the interest rate is 5.96%. Payments began in February 2005 and run through January 2025.

In 2005 the County borrowed \$145,000 for equipment for the Sheriff's office. The term of this loan is 5 years and the interest rate is 6.0%. Monthly payments began in December 2004 and continue through November 2009.

In 2005 the County purchased a building to be used for its administrative offices, and borrowed \$1,800,000. The term of this loan is 20 years and the interest rate varies from 3.25%-4.75%. Semiannual payments began in August 2005 and run through February 2025.

In 2006 the County constructed a trade center at the fairgrounds and borrowed \$650,000 to finance the construction. The term of this loan is 20 years and the interest rate is the Federal Home Loan Bank of Seattle's published rate for 10 year advances plus 1.25%. The initial rate is 5.89% and will be adjusted after 10 years. Semiannual payments begin in December 2006 and run through June 2025.

Aeronautics Board Loan - The County borrowed \$102,959 at 4.75% from the Montana State Aeronautics Board as a match for a Federal Aviation Administration land acquisition grant. The payments are variable and are due in 10 annual payments through February 2011.

Rural Special Improvement Bonds - The County issued rural special improvement bonds in May 1999. These bonds bear interest at 4.40% to 5.35% due in varying amounts to July 2009. The County is contingently liable for payment on these bonds.

Capital Lease - The County acquired under a capital lease, two data switches for its computer system. The lease agreement began May 31, 2007 and requires five principal payments, starting September 1, 2007 of \$17,813 plus interest at 5.6% through September 1, 2011.

The County was in compliance with all significant contractual provisions of its long-term debt.

Compensated Absences - Accumulated vacation pay payable is classified as compensated absences due within one year. Accrued sick leave payable is classified as non current.

## **FUTURE DEBT SERVICE PAYMENTS**

Debt service principal and interest payments required on the bonds, loans and notes payable are as follows:

Year Ended June 30,	Loans and Notes		RSID Bonds		Capital Lease		Total		Combined
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2008	\$284,620	\$164,839	\$5,000	\$926	\$15,927	\$1,886	\$305,547	\$167,651	\$473,198
2009	249,514	152,339	5,000	666	14,325	3,489	268,839	156,494	425,333
2010	238,366	140,937	10,000	267	15,127	2,686	263,493	143,890	407,383
2011	241,721	130,451			15,974	1,839	257,695	132,290	389,985
2012	238,843	119,356			16,869	945	255,712	120,301	376,013
2013	246,882	108,130					246,882	108,130	355,012

(Continued on next page)

Notes to Financial Statements (continued)

Year Ended June 30,	Loans and Notes		RSID Bonds		Capital Lease		-----Total-----		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Combined
(Continued from previous page)									
2014	222,561	96,605					222,561	96,605	319,166
2015	192,331	87,041					192,331	87,041	279,372
2016	136,978	78,924					136,978	78,924	215,902
2017	139,598	72,266					139,598	72,266	211,864
2018	142,283	65,544					142,283	65,544	207,827
2019	145,128	58,661					145,128	58,661	203,789
2020	148,082	51,670					148,082	51,670	199,752
2021	161,340	44,137					161,340	44,137	205,477
2022	164,731	35,759					164,731	35,759	200,490
2023	168,326	27,177					168,326	27,177	195,503
2024	172,113	18,402					172,113	18,402	190,515
2025	167,676	9,434					167,676	9,434	177,110
2026	54,179	2,408					54,179	2,408	56,587
Total	\$3,515,272	\$1,464,080	\$20,000	\$1,859	\$78,222	\$10,845	\$3,613,494	\$1,476,784	\$5,090,278

**8. RESTRICTED NET ASSETS AND RESERVED FUND BALANCES**

Restricted Net Assets - Restricted net assets are resources that were received by the County with an understanding between the County and the provider that the funds would be used for a specific purpose. All special revenue funds, except the PILT, clearing funds, building maintenance fund, and commissary fund are considered to be restricted net assets. The Debt service funds are also considered to be restricted.

Reserved Fund Balances - The only reserved fund balances are for inventories.

**9. RETIREMENT PLANS**

The County participates in two statewide mandatory cost-sharing multiple-employer, defined benefit retirement plans which cover all employees. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, death, and disability benefits to plan members and beneficiaries. Sheriff employees are covered by the Montana Sheriffs' Retirement System (MSRS) and substantially all other County employees are covered by the Montana Public Employees' Retirement System (MPERS).

The plans issue publicly available financial reports that includes financial statements and supplementary information for the plans. Those reports may be obtained from the following:

Mt. Public Employees Retirement Administration  
P.O. Box 200131  
1712 Ninth Avenue  
Helena, Montana 59620-0131  
Telephone: (406) 444-3154

Contribution rates for both plans are required and determined by State law. There were no changes in the contribution rates in 2007.

## Notes to Financial Statements (concluded)

Contribution rates, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>State</u>	<u>Total</u>
MSRS .....	9.535%	9.245%	-	18.78%
MPERS .....	6.80%	6.90%	0.10%	13.80%

The amounts contributed to MSRS and MPERS during the years ended June 30, 2005, 2006 and 2007 were equal to the required contribution for each year. The amounts contributed by the County were as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
MSRS .....	\$134,879	\$144,970	\$187,178
MPERS .....	347,243	357,604	365,277

The State's contributions to the MPERS plan in 2007 was approximately \$5,371.

### 10. RISK MANAGEMENT

The County faces a number of risks of loss including (a) loss or damage to property, (b) general liability, (c) workers' compensation, and (d) employee medical insurance. There were no significant changes in how the County covered its risks in 2006. The County manages these risks through a combination of commercial insurance, participation in a risk pool, and self-insurance.

Commercial insurance coverage is used to manage risks of loss for all activities except workers' compensation claims.

The County covers its workers' compensation risk through participation in the Montana Association of Counties Workers' Compensation Joint Powers Authority (the Authority). The Authority is supervised by a Board of Trustees, which is comprised of seven persons, who are elected by the participant counties at the annual meeting. The Authority is liable for the payment of benefits to employees of member counties under the Workers' Compensation and Occupational Disease Act. The reserve for the workers' compensation program was covered under a \$7.645 million dollar bond issue. The County's portion of the debt was \$78,678 which was paid in full February 2000. The Authority charges the County an annual workers' compensation premium to cover anticipated workers' claims. Audited summary financial information is available for the Authority from Montana Association of County Officials (MACO).

### 11. JOINT FUNDING

The County provided \$12,920 to fund the public libraries in the County and \$9,544 to fund cemeteries in the County.

### 12. CONTINGENT LIABILITIES

The County is the defendant in various lawsuits and claims. None of these matters is expected to have a significant financial impact on the County's operations.

Notes to Financial Statements (concluded)

**13. SUBSEQUENT EVENTS**

The County entered into a Lease-Purchase agreement for \$2,091,000 in February 2008 for energy management improvements to the five county buildings. Work began in February 2008 and is expected to be completed by September 2008. The County financed the project with 3.8% loan requiring semi-annual payments for 15 years.

**RAVALLI COUNTY  
HAMILTON, MONTANA**

**SCHEDULE OF REVENUE, EXPENDITURES, AND OTHER SOURCES (USES)  
BUDGET AND ACTUAL**

**GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2007**

	-----General Fund-----			-----Road Fund-----		
	Original Budget	Amended Budget	Actual	Original Budget	Amended Budget	Actual
<b>REVENUES:</b>						
Property Taxes .....	\$1,048,726	\$1,048,726	\$1,021,291	\$1,032,186	\$1,032,186	\$1,009,679
Licenses and Permits .....	204,900	204,900	166,530	125,000	125,000	141,766
Intergovernmental .....	343,688	345,463	348,914	868,575	868,575	873,800
Charges for Services .....	626,020	650,687	724,442	25,000	25,000	26,182
Fines and Forfeitures .....	205,300	205,300	254,836			
Interest Earnings .....	119,493	164,493	164,681			
Other .....	14,314	25,949	26,684	1,500	15,000	31,942
<b>Total Revenues .....</b>	<b>2,562,441</b>	<b>2,645,518</b>	<b>2,707,378</b>	<b>2,052,261</b>	<b>2,065,761</b>	<b>2,083,369</b>
<b>EXPENDITURES:</b>						
General Government .....	2,822,877	2,838,746	2,644,208			
Public Safety .....	54,001	53,866	52,528			
Public Works .....				2,264,071	2,291,580	2,287,693
Public Health .....	722,274	605,158	558,959			
Culture and Recreation .....		1,775	1,775			
Social and Economic Development ..	34,100	34,100	24,931			
Capital Outlay .....	123,855	271,656	259,126	46,500	58,129	58,128
Debt Service .....				79,108	79,108	79,106
<b>Total Expenditures .....</b>	<b>3,757,107</b>	<b>3,805,301</b>	<b>3,541,527</b>	<b>2,389,679</b>	<b>2,428,817</b>	<b>2,424,927</b>
<b>Excess (Deficiency) of Revenues over Expenditures .....</b>	<b>(1,194,666)</b>	<b>(1,159,783)</b>	<b>(834,149)</b>	<b>(337,418)</b>	<b>(363,056)</b>	<b>(341,558)</b>
<b>Other Sources and Uses of Funds:</b>						
Sale of Assets .....	1,400	1,400	1,607	410,500	410,500	74,600
Transfers in .....	1,678,452	1,812,374	1,805,371	372,027	392,027	392,027
Transfers out .....	(614,872)	(860,322)	(860,320)	(445,109)	(425,971)	(116,485)
Loan Proceeds .....		78,223	78,223			
Change in Encumbrances .....			2,220			
<b>Excess (Deficiency) of Revenues over Expenditures and Other Sources (Uses) .....</b>	<b>(\$129,686)</b>	<b>(\$128,108)</b>	<b>\$192,952</b>	<b>\$0</b>	<b>\$13,500</b>	<b>\$8,584</b>

See Notes to the Budget and Actual Schedules

**RAVALLI COUNTY  
HAMILTON, MONTANA**

**SCHEDULE OF REVENUE, EXPENDITURES, AND OTHER SOURCES (USES)  
BUDGET AND ACTUAL**

**GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2007**

	-----Public Safety Fund-----			----Payment-in-Lieu of Tax Fund----		
	Original Budget	Amended Budget	Actual	Original Budget	Amended Budget	Actual
<b>REVENUES:</b>						
Property Taxes .....	\$1,661,170	\$1,661,170	\$1,604,897			
Licenses and Permits .....	8,500	8,500	10,645			
Intergovernmental .....	133,154	133,154	140,410			\$1,469,669
Charges for Services .....	281,500	281,500	166,837			
Fines and Forfeitures .....			1,604			
Interest Earnings .....	1,600	1,600	1,866			
Other .....	10,636	23,617	78,235			
<b>Total Revenues .....</b>	<b>2,096,560</b>	<b>2,109,541</b>	<b>2,004,494</b>			<b>1,469,669</b>
<b>EXPENDITURES:</b>						
General Government .....						
Public Safety .....	3,864,732	4,154,217	4,065,005			
Public Works .....						
Public Health .....						
Culture and Recreation .....						
Capital Outlay .....	12,500	11,250	11,001			
Debt Service .....	42,126	42,261	42,124			
<b>Total Expenditures .....</b>	<b>3,919,358</b>	<b>4,207,728</b>	<b>4,118,130</b>			
<b>Excess (Deficiency) of Revenues over Expenditures .</b>	<b>(1,822,798)</b>	<b>(2,098,187)</b>	<b>(2,113,636)</b>			<b>1,469,669</b>
Sale of fixed assets .....	500	500				
Transfers in .....	1,867,526	2,142,915	2,142,913			
Transfers out .....	(186,944)	(186,944)	(186,944)	(\$1,475,650)	(\$1,475,650)	(1,475,650)
<b>Excess (Deficiency) of Revenues over Expenditures and Other Sources (Uses) ...</b>	<b>(\$141,716)</b>	<b>(\$141,716)</b>	<b>(\$157,667)</b>	<b>(\$1,475,650)</b>	<b>(\$1,475,650)</b>	<b>(\$5,981)</b>

See Notes to the Budget and Actual Schedules



**RAVALLI COUNTY  
HAMILTON, MONTANA**

**NOTES TO THE BUDGET AND ACTUAL SCHEDULES**

**FOR THE YEAR ENDED JUNE 30, 2007**

State law requires the County to prepare budgets for all funds. Budgets are prepared on the modified accrual basis. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law. Amendments to the budget can be made for unanticipated state and federal revenue with the approval of the County Commissioners.

The Board approves the original budgets on or before the second Monday in August or within 45 calendar days of receiving certified taxable values from the Department of Revenue.

The County budgets also includes encumbrances, which represent commitments to expend funds under current budget appropriations. All appropriations lapse at the end of the fiscal year except for accounts payable and encumbrances.

# RAVALLI COUNTY, MONTANA

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

	CFDA No.	Identification Number	Grant Award	Grant Receivable (Deferred Revenue) June 30, 2006	Federal Receipts	Federal Expend- itures	Grant Receivable (Deferred Revenue) June 30, 2007
<b>U.S. Department of Agriculture</b>							
Administered by the Montana State Auditor's Office:							
Forest Reserve .....	10.665	N/A	N/A		\$327,653	\$327,653	
Administered by the Montana Dept of Health & Human Service							
Women, Infants & Children ....	10.557	03-07-5-21-024-0	N/A	\$22,295	151,944	151,165	\$21,516
Weeds After Fire:							
Alvista Loop Grant .....	10.644	MDA #2002-618	\$84,437	(240)	3,635	3,875	
Badger Lane Grant .....	10.644	MDA #2007-029	3,105			1,605	1,605
Bio-Control Grant .....	10.644	MDA #2005-057	40,000	(603)	8,826	9,633	204
Bio Wed Grant .....	10.644	MDA #2006-022	41,140		41,140	36,673	(4,467)
Burke Gulch Grant .....	10.644	MDA #2002-622	86,301	(1,600)	740	2,340	
Chief Joseph Grant .....	10.644	MDA #2005-058	19,018	(554)	1,640	2,493	299
Franklin Gulch Grant .....	10.644	MDA #2002-621	39,417	(240)	1,640	1,880	
Gold Creek Grant .....	10.644	MDA #2004-721	10,000	(300)	3,773	4,073	
Indian Prairie East Grant ....	10.644	MDA #2005-059	21,216	(677)	8,338	8,989	(26)
Koch Weed Grant .....	10.644	MDA #2005-056	14,079	(410)	5,622	6,032	
Lake Como Grant .....	10.644	MDA #2006-708	4,809		2,040	2,040	
Lake Como Orchard Grant ....	10.644	MDA #2005-042	5,905		2,434	2,434	
Lower Skalkoaho Grant .....	10.644	MDA #2004-724	26,000	(559)	8,694	9,253	
Orange Hawk Grant .....	10.644	MDA #2004-702	4,300	(816)		816	
Owings Creek 2 Grant .....	10.644	MDA #2004-720	15,554	519	2,038	1,519	
Sharrott Hill Grant .....	10.644	MDA #2004-722	17,000	(854)		854	
Sula South Grant .....	10.644	MDA #2002-620	43,858	(240)	6,560	6,800	
Sweeney Creek Grant .....	10.644	MDA #2004-051	30,000	(900)		900	
Three Mile Grant .....	10.644	MDA #2004-052	20,000	(583)	6,009	6,592	
Trinity Ranch Grant .....	10.644	MDA #2006-707	32,561		9,756	9,756	
Upper Skalkaho Grant .....	10.644	MDA #2002-616	51,436		8,000	8,000	
Stop the Next Knapweed Grant	10.644	MDA #2006-023	35,636	9,879	17,436	16,557	9,000
Total Weeds After Fire Grant ....	10.644			1,822	138,321	143,114	6,615
Total U.S. Department of Agriculture .....				24,117	617,918	621,932	28,131
<b>U. S. Department of Housing and Urban Development</b>							
Administered by the Montana Department of Commerce							
Community Development Block Grant:							
Economic Development Program	14.228	MT-CDBG- EDPG05-05	15,000	5,561	5,561		
<b>U.S. Department of the Interior</b>							
Direct Program Federally Administered							
U.S. Dept of Fish & Wildlife .....	15.FFC	601815J377	23,255	6,571	15,937	10,566	1,200
U.S. Dept of Fish & Wildlife .....	15.XXX	N/A	N/A		31,584	31,584	
Total U.S. Department of Interior .....				6,571	47,521	42,150	1,200

(Continued on next page)

See Notes to the Schedule of Expenditures of Federal Awards

**RAVALLI COUNTY, MONTANA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

FOR THE YEAR ENDED JUNE 30, 2007							
	CFDA No.	Identification Number	Grant Award	Grant Receivable (Deferred Revenue) June 30, 2006	Federal Receipts	Federal Expend- itures	Grant Receivable (Deferred Revenue) June 30, 2007
<b>U.S. Department of Justice</b>							
Direct Program Federally Administered							
Office of Justice Programs:							
Violence Against Women .....	16.590	2004-WE-AX-0040	\$243,633	\$18,705	\$137,750	\$145,780	\$26,735
Local Law Enforcement Block							
Grant 2005 .....	16.592	2004-LB-BX	10,649				
VEST Grant .....	16.607	N/A	20,799	(315)	1,674	8,635	6,646
Drug Free Communities Grant ..	16.729	2002-JN-FX-0071	100,000	(1,049)		1,049	
Justice Assistance Grant .....	16.738	2005-DJBX0835	5,381	5,381	31,603	26,690	468
Justice Assistance Grant .....	16.738	2006-DJBX0804	16,599		11,592	11,592	
National Children's Alliance:							
Non-Member Program Develop ..	16.543	Hami-MT-NMPD06	49,266	(15,908)	45,831	58,930	(2,809)
Non-Member Training .....	16.543	Hami-MT-NMT06	4,875				
Administered by the Montana Department of Justice:							
Victim/Witness Program .....	16.575	02-V01-81110	29,000		29,000	16,816	(12,184)
Drug Task Force Grant .....	16.575	N/A	N/A	(241)		241	
National Criminal History							
Improvement Program .....	16.554	01-H15-81362	57,735				
Administered by the Montanan Department of Administration							
Project Safe Neighborhoods ....	16.609	2004-GP-CA-0699	21,790	5,425	6,683	1,258	
Administered by the Bitter Root Resource Conservation and Development Area, Inc. & Clearwater Economic Development Association:							
Lewis and Clark Grant .....	16.580	N/A	N/A	940	940		
Total U.S. Department of Justice .....				12,938	265,073	270,991	18,856
<b>U.S. Department of Transportation</b>							
Direct Program Federally Administered							
Federal Aviation Administration:							
Taxiway Construction .....	20.106	A.I.P.3-30-0037-04	867,568	(1,294)		1,294	
Environmental Assessment ....							
Taxiway, maintenance, equipment, and building .....	20.106	A.I.P.3-30-0037- 005-2003	140,572	500		4,146	4,646
Snow Removal Equipment .....							
A.W.O. System .....	20.106	A.I.P.3-30-0037- 006-2005	327,593	(478)	29,932	30,410	
A.W.O. System .....							
Snow Removal Equipment .....							
A.W.O. System .....	20.106	A.I.P.3-30-0037- 007-2006	168,875	207	150,000	168,668	18,875
A.W.O. System .....							
Snow Removal Equipment .....							
A.W.O. System .....	20.106	A.I.P.3-30-0037- 008-2007	109,774			9,240	9,240
Total Federal Aviation Admin. ...				(1,065)	179,932	213,758	32,761
Administered by the Montana Department of Transportation							
Safe Kids/Safe Communities ...	20.600	N/A	27,900	4,090	26,775	25,906	3,221
National Highway Safety Grant ..	20.601	N/A	36,000	12,748	12,748		
Darby .....	20.205	STPE 41 (42)	93,711		57,003	93,711	36,708
Corvallis Bridge .....	20.205	STPE 41 (33)	79,127	4,086	54,103	50,017	
Total U.S. Department of Transportation .....				19,859	330,561	383,392	72,690

# RAVALLI COUNTY, MONTANA

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

	CFDA No.	Identification Number	Grant Award	Grant Receivable (Deferred Revenue) June 30, 2006	Federal Receipts	Federal Expend- itures	Grant Receivable (Deferred Revenue) June 30, 2007
<b>U.S. Environmental Protection Agency</b>							
Administered by the Montana Dept. of Environmental Quality							
Air Quality .....	66.001	200019	\$2,750		\$3,025	\$4,525	\$1,500
<b>U.S. Federal Emergency Management Agency</b>							
MT Dept of Disaster & Emergency Services							
Civil Defense .....	83.503	N/A	N/A	7,200	25,775	22,317	3,742
Total U.S. Federal Emergency Management Agency .....				7,200	25,775	22,317	3,742
<b>U.S. Dept. of Health &amp; Human Services</b>							
Administered by the Montana Dept of Public Health & Human Services							
Family Planning Services .....	93.217	06-07-5-11-006-0	N/A		39,938	39,938	
Childhood Immunization Grant ..	93.994	06-07-4-31-038-0	11,662	3,091	19,162	11,159	(4,912)
Material & Child Health Services	93.994	06-07-5-01-041-0	43,360		43,360	43,360	
Total Montana Department of Public Health & Human Services				3,091	102,460	94,457	(4,912)
Centers for Disease Control and Prevention							
Administered by the Montana Dept of Public Health & Human Services							
Bioterrorism Grant .....	93.XXX	04-07-4-61-042-0	104,552	(47,836)	79,348	97,383	(29,801)
Environmental Health Assessment Grant .....	93.XXX	04-07-1-05-012-0	12,000	(2,687)		2,687	0
Total U.S. Department of Health & Human Services .....				(47,432)	181,808	194,527	(34,713)
TOTAL FEDERAL AWARDS .....				\$28,814	\$1,477,242	\$1,539,834	\$91,406

See notes to the Schedule of Expenditures of Federal Awards

**RAVALLI COUNTY  
HAMILTON, MONTANA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2007**

**A. ACCOUNTING POLICIES**

The accounting policies used in preparing the schedule of expenditures of federal awards are the same as those used in the preparation of the governmental fund financial statements as described in note 1. B. to the financial statements. Federal payments-in-lieu-of-taxes (PILT) is not considered to be a federal award.

N/A = Not Applicable or Not Available

**B. LOAN RECEIVABLE**

The Department of Housing and Urban Development - Community Development Block Grant programs had loans outstanding at June 30, 2007. There are no continuing federal compliance requirements applicable to the loans.

**RAVALLI COUNTY  
HAMILTON, MONTANA**

**SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2007**

**Property Tax Valuations**

The following table shows the market valuations and taxable valuations of real and personal property located within the County for the fiscal years 2002 through 2007.

Year Ended June 30,	Market Valuation	Percent of Change	Taxable Valuation	Taxable Valuation as a % of Market Valuation
2007	\$2,461,126,992	29.3%	\$64,468,316	2.6%
2006	1,903,779,821	7.1%	62,244,507	3.3%
2005	1,778,179,540	6.5%	59,052,008	3.3%
2004	1,668,941,960	5.9%	56,565,329	3.4%
2003	1,575,822,877	(4.8)%	54,321,506	3.4%
2002	1,654,713,268		51,342,488	3.1%

**Tax Levies**

The following table shows the mill rates per \$1,000 of taxable value of property located in the County for the tax years shown. Property within the County is assessed with the appropriate city, county road, school district, fire district, and park district levies depending upon location.

	-----Year Ended June 30,-----				
	2003	2004	2005	2006	2007
State University . . . . .	6.00	6.00	6.00	6.000	6.000
Statewide School Equalization	40.00	40.00	40.00	40.000	40.000
Countywide School Levy . . . . .	90.24	89.84	91.92	88.610	88.040
Ravalli County General Levy . . .	92.29	88.62	89.28	90.040	100.302
Ravalli County Bond Levy . . . . .	6.37	5.52	8.11	7.360	
Ravalli County Road Levy . . . . .	16.48	16.96	17.32	17.829	18.978
Total . . . . .	251.38	246.94	252.63	249.839	253.320

## **Tax Collections**

Set forth in the following table is the real and personal property tax levies and collections for the County for the fiscal year ending June 30, 2002 through 2007

Year Ended June 30,	Total Tax Levy	Current Property Tax Collections	Percentage of Levy Collected	Total Property Tax Collections *	Percentage of Levy Collected
2007	\$7,289,231	\$6,877,243	94.35%	\$7,187,307	98.60%
2006	\$6,444,808	\$5,973,166	92.68%	\$6,477,688	100.51%
2005	6,084,287	5,762,189	94.71%	6,081,562	99.96%
2004	6,196,354	5,699,701	91.98%	6,151,925	99.28%
2003	5,274,746	5,174,228	98.09%	5,225,069	99.06%
2002	4,809,633	4,721,862	98.18%	4,758,532	98.94%

\* Total tax collection amounts include interest collected on delinquent taxes.

## **Major Taxpayers**

The following table lists the largest taxpayers within the County for fiscal year 2006/07 in declining order of taxable valuation.

Taxpayer	Business	Taxable Value	% of County's Total Taxable Value
Northwestern Energy	Utility	\$3,302,442	5.31%
Qwest Corporation	Telecommunications	858,404	1.38%
Glaxo/Smith/Kline	Medical Research	655,276	1.05%
Stock Farm, LLC	Farm/Ranch	626,702	1.01%
Ravalli County Electric Coop	Utility	554,355	0.89%
Montana Rail Link	Railroad	585,804	0.94%
Harold & Marilyn Mildenberger	Automobile Dealership/Farming	223,563	0.36%
Farmers State Bank	Banking	134,488	0.22%
James & Haity McNerney	Individuals	118,260	0.19%
Discovery Care Center	Nursing Home	111,794	0.18%
Total		<u>\$7,171,088</u>	<u>11.52%</u>

1. The first part of the document is a list of names and addresses. The names are listed in the first column, and the addresses are listed in the second column. The names are: John Doe, Jane Smith, and Bob Johnson. The addresses are: 123 Main Street, 456 Elm Street, and 789 Oak Street.

NAME	ADDRESS	CITY	STATE	ZIP
John Doe	123 Main Street	New York	NY	10001
Jane Smith	456 Elm Street	Los Angeles	CA	90001
Bob Johnson	789 Oak Street	Chicago	IL	60601

The second part of the document is a list of names and addresses. The names are listed in the first column, and the addresses are listed in the second column. The names are: Alice Brown, David Green, and Emily White. The addresses are: 101 Maple Street, 202 Pine Street, and 303 Cedar Street.

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The third part of the document is a list of names and addresses. The names are listed in the first column, and the addresses are listed in the second column. The names are: Frank Black, Grace Hall, and Henry King. The addresses are: 404 Birch Street, 505 Spruce Street, and 606 Fir Street.

NAME	ADDRESS	CITY	STATE	ZIP
Frank Black	404 Birch Street	San Francisco	CA	94101
Grace Hall	505 Spruce Street	Portland	OR	97201
Henry King	606 Fir Street	Seattle	WA	98101

NAME	ADDRESS	CITY	STATE	ZIP
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**RONALD PAUL FOLTZ**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS**

Board of Commissioners  
Ravalli County  
Hamilton, Montana

I have audited the financial statements of Ravalli County, Hamilton, Montana as of and for the year ended June 30, 2007, and have issued my report thereon dated September 29, 2008. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing my audit, I considered the County's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the local governments' internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses.

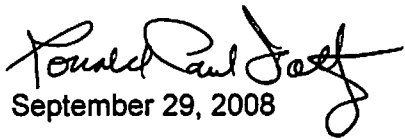
I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the County's compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain other matters which I have reported to the County in a separate letter dated September 29, 2008.

This report is intended for the information and use of the County and the State of Montana. It is not intended to be and should not be used by anyone other than these specified parties.

  
September 29, 2008

**RONALD PAUL FOLTZ**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER COMPLIANCE APPLICABLE TO MAJOR PROGRAMS**

Board of Commissioners  
Ravalli County  
Hamilton, Montana

**COMPLIANCE**

I have audited the compliance of Ravalli County, Hamilton, Montana, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2007. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. My responsibility is to express an opinion on the County's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the County's compliance with those requirements.

In my opinion, Ravalli County, Hamilton, Montana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

**INTERNAL CONTROL OVER COMPLIANCE**

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the County's internal control over compliance.

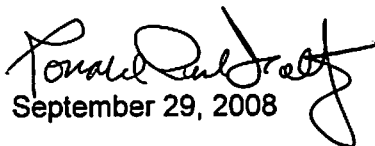
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

I did not identify any deficiencies in internal control over compliance that I considered to be material weaknesses, as defined above.

This report is intended for the information and use of the County, federal awarding agencies and the State of Montana. It is not intended to be and should not be used by anyone other than these specified parties.

  
September 29, 2008

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR RAVALLI COUNTY  
HAMILTON, MONTANA

YEAR ENDED JUNE 30, 2007

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### SECTION I - SUMMARY OF AUDITOR'S RESULTS

#### Financial Statements

1. Type of auditor's report issued: Unqualified
2. Internal control over financial reporting:  
Material weaknesses identified \_\_\_\_\_yes ☒no  
Significant deficiency(s) identified not  
considered to be material weaknesses \_\_\_\_\_yes ☒none reported
3. Noncompliance material to the  
financial statements noted? \_\_\_\_\_yes ☒no

#### Federal Awards

4. Internal control over major programs:  
Material weaknesses identified? \_\_\_\_\_yes ☒no  
Significant deficiency(s) identified not  
considered to be material weaknesses? \_\_\_\_\_yes ☒none reported
5. Type of auditor's report issued on  
compliance for major programs: Unqualified
6. Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)? \_\_\_\_\_yes ☒no
7. Identification of major programs:  

CFDA No. 10.665  
CFDA No. 20.106

Schools and Roads Grants  
Airport Improvement Program
8. Dollar threshold used to distinguish  
between Type A and Type B programs \$300,000
9. Auditee qualified as low-risk auditee? ☒yes \_\_\_\_\_no

### SECTION II - FINANCIAL STATEMENTS FINDINGS

No matters were reported.

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.